Introduction from the guest editor Professor Dianne H.B. Welsh

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Article:

Furthering international research has long been a goal of many international academic organizations and journals. In fact, in the June 2005 issue of the *Academy of Management Journal*, the editors examine international management articles that have been published from 1970 to 2004 to really find out if they truly have increased the international scope of the journal. They concluded that while there has been a dramatic increase in international management research in their journal especially in the first half-decade of the twenty-first century, there is still more that needs to be done. This special issue is a concerted attempt to expand the body of knowledge in the area of international management research, particularly in a growing area of entrepreneurial research-franchising.

Franchising has been one of the fastest growing methods of doing business in the US and abroad for the last half century. Franchising sales in the US alone are estimated at $800 billion, with more than 2,300 franchisors and 550,000 franchised units cross the United States employing seven million individuals. Especially internationally, it is a less expensive, less risky form of doing business than developing a start up company (Taylor 2000). The franchisor, or founder of the unique business format system, fits clearly into the definitions of entrepreneurship found in the literature as reviewed by Low and MacMillan (1988), such as carrying out new combinations (Schumpeter 1934); driven by the perception of opportunity (Stevenson et al. 1989); and the creation of new ventures (Gartner 1985). Franchising encompasses entrepreneurial characteristics such as the introduction of new products and services, innovative marketing, openness to change, outrunning the competition and fast growth (Aldrich and Auster 1986; Gartner 1985).

While franchisees differ from the traditional entrepreneurs in that they are buying a license from an organization that has a market tested concept and a structured set of operating procedures, usually decreasing their risk substantially relative to a traditional start up business, they are still business owners, which classify them as a particular type of entrepreneur. Entrepreneurship entails: innovativeness, risk taking, and proactiveness (Burgelman 1983; Morrison 2000). Despite the control of the franchisor, a franchisee still must commit to a certain amount of risk taking and proactiveness in the running their business successfully.

This focused issue seeks to gain a better understanding of the relationship between entrepreneurship and franchising worldwide, the international expansionary activities by franchises into emerging and industrialized markets, including motives and patterns of development and investment; unique expansion strategies; challenges to expansion; unique forms of franchising, such as hybrid franchises; multi-generational family franchise expansion and other forms of franchise expansion; solutions and lessons that franchises have learned as they have expanded internationally, including cultural implications; and the effect of trade policies on franchise expansion and success. Our submissions exceeded the reviewers' expectations. In fact, we had more than enough submissions to fill our special issue and so some franchise articles are being incorporated in other issues.

Rondan Cataluña, Navarro García, and Díez de Castro, in their article entitled, "Proposing New Variables for the Identification of Strategic Groups in Franchising in Spain" identify new strategic variables that classify franchisors between sectors and distribution strategy. Four perfectly differentiated groups are identified: expensive franchisors, re-converted franchisors, mature franchisors, and rapid growth franchisors. Expensive franchisors are defined as the group that has the highest cost of investment. Besides the financial investments demanded from the franchisees in this group such as entry fee, sales royalties, and advertising fees, minimum population and minimum size of the location present higher values than any other group. Re-converted are franchisors that have been exercising their commercial activity for more than 34 years, on average. They have not gotten the number of outlets they have desired and present limited growth. They have adopted franchising as a strategy later (22 years). However, they have been operating in franchising longer. The mature franchises present the second highest number of outlets and present the most international companies. Their annual growth is good so they search for new markets to support expansion efforts. Rapid growers are franchisors that have the lowest age, 11 years, but have adopted franchising almost immediately, have the longest contract, and the highest growth of the four groups.

Through identifying strategic groups, this study identifies certain variables (investment, entry fee, royalties, geographical dispersion, etc.) to be explanatory factors of growth. However, the study constraints include sample size, classification and industry, variable selection, limited database usage, and heterogeneous samples within each type or industry classification. Despite these limitations, the study offers further opportunities for research in countries around the world.

Stevan Holmberg & Kathryn Boe Morgan take on a controversial topic that has been much researched: franchise failure. They conduct a study entitled, "Entrepreneurial Global Franchise Ventures: US and European Franchisee Failure Strategic and Empirical Perspectives" that primarily looks at franchise failure in developed and transitional economies. The study includes utilization of a strategic franchisee failure perspective that looks at franchisee failure as a multi-stage process rather than one event; a comparison of longitudinal data from over 780 franchise systems and 292,000 franchise units in the United States; 700 franchise systems and 31,000 franchise units in the United Kingdom; and estimates of current European business-format franchise market size that includes selected transitional Central and European countries. For instance, in the Czech Republic, franchise systems have doubled from 45 in 1997 to 90 in 2004; in Hungary from 220 in 1998 to 300 in 2004; in Poland from 30 in 1998 to 120 in 2003; Slovenia from 40 in 1997 to 94 by 2000; and Slovakia has approximately 20 franchisors and 235 franchise units in 2005. Additionally, the Central European countries recently admitted to the European Union has the potential to stimulate franchising as well as small and medium businesses (SMEs), and the entrepreneurial spirit of the population. The strategic implications of their study in developing Central European provide a good lesson for franchisors considering expanding into this part of the world. They found that the transitional EU Central European countries have 1; substantial potential to meet pent-up consumer demand, 2; consistent quality products and services, 3. Increasing consumer prosperity. The study confirms the findings of our studies (Alon and Welsh 2001; Welsh et al. 2006; Welsh and Alon 2001) on franchising in transitional economies-that the relationship between the franchisee/franchisor is more complex and varies country-to-county, depending on the infrastructure and the environment.

Concerning US and European studies on franchise failure, the paper suggests that a strategic management perspective that views failure as a process whereby early intervention is possible, combined with the use of longitudinal data, are both critical to understanding franchise failure and adopting early franchise mitigation strategies. Prior research as focused on single year, cross-sectional data and a number of franchise failure definitions. The study found a stable 10% overall median failure rate over a 9-year period for the United States. However, the data from the United Kingdom showed a lowering of turnover rates in the four of the five past years, at around 9%. In conclusion, the study offers important strategic management failure implications that are particularly applicable for developing Central European franchisors and franchisees.

Marc Sardy & Ilan Alon used the Panel Study of Entrepreneurial Dynamics (PSED) dataset developed through the Entrepreneurship Research Consortium to better understand nascent entrepreneurs as compared to franchisee entrepreneurs in their study, “Exploring the Differences between Franchisee Entrepreneurs and Nascent Entrepreneurs.” Entrepreneurs and franchisees are usually seen as different in relationship to risky startup ventures: entrepreneurs are seen as those who take large risks while franchisees are those that work through a franchise system to take on less risk. However, researchers agree that franchisees are seen as a type of entrepreneur. Their study compared the PSED database to other studies of nascent entrepreneurs, such as Knight (1984) and Stoner and Fry (1982). The PSED initially screened 64,622 respondents and contacted 830 nascent entrepreneurs and 431 comparison group members, including 52 franchisees. Sardy & Alon focused on the results in the first year of the PSED since they were the most complete. By contrasting the results from the Knight (1984) study, Canadian data could be contrasted with US data.

The findings of the study showed directionally similar results as the Knight (1984) study, but there were differences in the magnitude of the results in the following categories: skills and abilities, preference for future firm size, and the confidence in the level of effort and expected first-year firm income. From these differences, ten major conclusions were drawn. They include: (1) Franchisees have less industry experience. (2) Franchisees are less confident that their skills are critical to success. (3) Education is comparable, although franchisees education is skewed higher. (4) Franchisees do not seem to value their previous experience as much as nascent entrepreneurs. (5) Reputation capital (via experience) is less important to franchisees. (6) No significant difference in team size at the startup phase. (7) Franchisees have a vision of larger future organizations. (8) Franchisees had fewer net assets and are less well capitalized. (9) Franchisees expect first year income to be less variable than do nascent entrepreneurs. (10) Franchisees are less confident that they can make the business a success. The authors suggest the need for more research to be better able to profile the differences between nascent entrepreneurs, or independent entrepreneurs and franchisees.

Reginald Litz and Kent Walker from the University of Manitoba look at buying groups in their article, “Buying into Buying Groups: Is it Good for the Family Firm?” The study concentrates on three main questions: (1) Are family businesses inherently disadvantaged? (2) Do buying groups enhance their members’ performance? (3) Do buying groups enhance the performance of family businesses in particular? The sample was 300 small retail hardware stores that would be considered trade-name franchises because they are part of a buying group. The advantages of these groups include access to economies of scale in purchasing, brand name recognition, and workforce training. These buying groups are continuing to increase on an international scale. While their economic importance is increasing, there has been little research on the implications of membership for family entities. The majority of the sample was both family firms and buying group members.

The results showed that family firms are not inherently disadvantaged compared to their non-family counterparts. Second, in response to the question if buying groups enhance members’ performance, the results are less clear. Independent businesses reported significantly higher profitability but less perceived satisfaction with their store’s sales growth and community relations. Neither the degree of dependence upon, nor the duration of membership in, the buying group makes a significant difference across any of the five performance measures used in the study. The third question, do buying groups enhance the performance of family firms? The study found independent family firms reported higher profit margins than family firms associated with buying groups. There were no differences found for the degree of dependence on a buying group, however, mixed findings were found concerning the duration of buying group membership. But this difference was only found with one dimension. The limited results of this study found no clear advantage associated with buying group membership. Further research is needed to expand the size and scope of the study.

Our last study in the special issue is entitled, “Franchisors do their Homework before Entering International Markets: Experiences from the Australian Franchising Sector,” by Lorelle Frazer, Bill Merrilees, and Kelli Bodey of Griffith University on the Gold Coast. This study focuses on an internet survey of the population of business format franchises in Australia in the first phase, while the second phase of the study reports case studies with 16 franchise systems. The study looked at the timing of the decision to expand offshore by franchisors that currently are operating overseas. Successful Australian franchisors were purposely chosen from different industries with a variety of backgrounds and experience. The study found that the timing of overseas market entry ranged from 0 to 14 years. They do not wait until domestic market saturation is achieved to overcome Australia’s small population as well as the shortage of qualified franchisees. Their expansion strategies were proactive rather than reactive and relying on interested investors. They developed their strategies over time, rather than having a global mindset from the outset. Further research is needed with a larger sample of franchisors as well as a comparison group of franchisors that have a global strategy from the beginning as a comparison to measure their performance.

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